

AUDITING PROCEDURES REPORT

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Local Government Type: <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name: <u>City of Rockwood, Michigan</u>	County Wayne
Audit Date June 30, 2004	Opinion Date August 16, 2004	Date Accountant Report Submitted To State: November 23, 2004	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations.

You must check the applicable box for each item below:

- | | | |
|---|--|---|
| <input type="checkbox"/> yes | <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> yes | <input checked="" type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input checked="" type="checkbox"/> yes | <input type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> yes | <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> yes | <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91] or P.A. 55 of 1982, as amended [MCL 38.1132]) |
| <input type="checkbox"/> yes | <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> yes | <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> yes | <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> yes | <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Reports on individual federal assistance programs (program audits).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

Certified Public Accountant (Firm Name): PLANTE & MORAN, PLLC			
Street Address 27400 Northwestern Hwy.	City Southfield	State MI	ZIP 48034
Accountant Signature <i>Plante & Moran, PLLC</i>			

City of Rockwood, Michigan

Financial Report with Supplemental Information June 30, 2004

City of Rockwood, Michigan

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Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council
City of Rockwood, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Rockwood, Michigan as of and for the year ended June 30, 2004, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Rockwood, Michigan's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Rockwood, Michigan as of June 30, 2004 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis, retirement system schedules of funding progress, and the budgetary comparison schedules, as identified in the table of contents, are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

A member of



A worldwide association of independent accounting firms

To the Honorable Mayor and
Members of the City Council
City of Rockwood, Michigan

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Rockwood, Michigan's basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

As described in Note 14, the City has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, and related statements, as of July 1, 2003.

Plante & Moran, PLLC

August 16, 2004

City of Rockwood, Michigan

Management's Discussion and Analysis

Our discussion and analysis of the City of Rockwood, Michigan's (the "City") financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2004. Please read it in conjunction with the City's financial statements.

Financial Highlights

As discussed in further detail in this discussion and analysis, the following represents the most significant financial highlights for the year ended June 30, 2004:

- State-shared revenue, our second largest revenue source, was reduced by the State of Michigan by approximately \$10,000 this year.
- Property taxes are the City's single, largest source of revenue. Property tax revenue for general operations increased by approximately \$60,000 in the current year despite holding the operating millage at 16.0, which is less than the amount legally available to levy.
- The City began construction of a watermain loop project in Commerce Park. The project is being funded through TIFA tax captures.
- The City's Commerce Park Fund transferred approximately \$144,000 to the General Fund to help fund several special projects.

Using this Annual Report

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of the City as a whole and present a longer-term view of the City's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year, and whether the taxpayers have funded the full cost of providing government services.

The fund financial statements present a short-term view; they tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the City's operations in more detail than the government-wide financial statements by providing information about the City's most significant funds. The fiduciary fund statements provide financial information about activities for which the City acts solely as a trustee or agent for the benefit of those outside of the government.

City of Rockwood, Michigan

Management's Discussion and Analysis (Continued)

The City as a Whole

The following table shows, in a condensed format, the net assets as of June 30, 2004 (in thousands of dollars):

TABLE I

	Governmental Activities	Business-type Activities	Total
Assets			
Current assets	\$ 2,541	\$ 996	\$ 3,537
Noncurrent assets	5,151	4,599	9,750
Total assets	7,692	5,595	13,287
Liabilities			
Current liabilities	346	171	517
Long-term liabilities	3,673	2,049	5,722
Total liabilities	4,019	2,220	6,239
Net Assets			
Invested in capital assets - Net of related debt	1,438	2,278	3,716
Restricted	1,008	14	1,022
Unrestricted	1,227	1,083	2,310
Total net assets	<u>\$ 3,673</u>	<u>\$ 3,375</u>	<u>\$ 7,048</u>

The City has combined net assets of over \$7 million. Business-type activities comprise approximately \$3.4 million of the total net assets. In future reports, comparative data will be provided for the statement of activities. Comparative data is not required during the first year of reporting under GASB No. 34, and therefore, a comparative statement of activities is not part of the management's discussion and analysis.

City of Rockwood, Michigan

Management's Discussion and Analysis (Continued)

The following table shows the changes of the net assets during the fiscal year ended June 30, 2004 (in thousands of dollars):

TABLE 2

	Governmental Activities	Business-type Activities	Total
Revenue			
Program revenue:			
Charges for services	\$ 448	\$ 821	\$ 1,269
Operating grants and contributions	228	-	228
Capital grants and contributions	31	-	31
General revenue:			
Property taxes	1,508	166	1,674
State-shared revenue	362	-	362
Unrestricted investment earnings	23	7	30
Other	104	-	104
Total revenue	2,704	994	3,698
Program Expenses			
General government	1,071	-	1,071
Public safety	1,020	-	1,020
Public works	343	-	343
Recreation and culture	207	-	207
Interest on long-term debt	168	90	258
Water and sewer	-	948	948
Total program expenses	2,809	1,038	3,847
Change in Net Assets	\$ (105)	\$ (44)	\$ (149)

Governmental Activities

The City's total governmental revenues increased by approximately \$220,000 despite decreases in state-shared revenue and interest income. The increase, which represents 8.9 percent, was primarily due to the continuing increase in property taxes and increases in District Court fines and fees revenue.

During the year, expenses increased by about \$280,000. Increases were led by large increases in health care costs, property insurance rates, and required pension contributions. To offset this, the City closely monitored its spending in all other areas.

City of Rockwood, Michigan

Management's Discussion and Analysis (Continued)

Business-type Activities

The City's business-type activities consist of the Wastewater Treatment Fund and the Water and Sewer Fund. The City provides water to residents from the Detroit Water System. The City provides sewage treatment through a City-owned and -operated sewage treatment plant. 2004 was a wetter-than-average year, which resulted in relatively less customer usage of the water system. The reduction in usage contributed to the operating loss in the Water and Sewer Fund. However, it is important to note that this loss was essentially due to depreciation expenses, which is a noncash cost. Both the Water and Sewer Fund and the Wastewater Treatment Funds revenues were less than that of the prior year, but each exceeded the respective funds' cash basis operating expenses. This modest amount of excess revenue is relied upon to provide for major repairs of the systems as well as system replacement and improvements.

The City's Funds

The analysis of the City's major funds begins on page 11, following the government-wide financial statements. The fund financial statements provide detail information about the most significant funds, not the City as a whole. The City Council creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as special property tax millages. The City's major funds for 2004 include the General Fund, Major Roads Fund, Local Roads Fund, Commerce Park Fund, and the City Hall Construction Fund.

The General Fund pays for most of the City's governmental services. The most significant is public safety, for which expenses approximated \$791,000 during the year ended June 30, 2004.

General Fund Budgetary Highlights

Over the course of the year, the City amended the General Fund budget to take into account events during the year. The most significant changes were increases in the estimated DPW, general service, and District Court expenses of approximately \$41,000, \$30,000, and \$20,000, respectively. These amendments were the result of unanticipated expenditures incurred by the City. Overall, City departments exceeded budget expenditures by approximately \$37,000; however, the City did not budget for the revenue or expenses related to \$31,000 of grant funding received or the \$68,000 in proceeds from the issuance of debt and the related capital outlay expense. Since the unbudgeted expenditures discussed above had specific funding sources, this allowed the General Fund to increase its fund balance from approximately \$868,000 a year ago to approximately \$1,001,000 at June 30, 2004.

Capital Asset and Debt Administration

At the end of 2004, the City had approximately \$9,167,000 (net of depreciation) invested in a broad range of capital assets, including buildings, police and fire equipment, water and sewer lines, and infrastructure.

During the current year, the City entered into an installment purchase agreement for \$68,000 to finance the purchase of a street sweeper.

City of Rockwood, Michigan

Management's Discussion and Analysis (Continued)

The City continues to collect property tax revenues from specific millages to pay for the sanitary sewer debt and the City Hall building debt.

Economic Factors and Next Year's Budgets and Rates

The City's budget for next year calls for a freeze on property tax rates. This can be accomplished because of modest growth in our tax base and factors related to the Tax Increment Finance Authority (TIFA) discussed below. Because of the impact of Proposal A, however, the City needs to continue to watch its budget very closely. The state-wide Tax Reform Act limits growth in taxable value on any individual property to the lesser of the rate of inflation or 5 percent. Because some properties increase in value by less than inflation, the mathematical result of this is that the total taxable value for the City will grow less than by inflation, before considering new property additions.

During the fiscal year, the TIFA, a component unit of the City, was rendered inactive and will no longer capture a portion of the City's property taxes. This is expected to increase the City's operating property tax revenue by approximately \$160,000 in 2005.

During fiscal year 2005, the City is planning to continue work on the Downriver Linked Greenway Initiative. Over the past several years, the City has received grants to help fund this project and future grants are expected to be received to help complete the project.

In the current year, the City began to plan for the development of Patricia Lezotte-Quick River Walk Park. The City has received several grants for the development of the park, and Phase I is expected to be completed in 2005.

During fiscal year 2005, the City will use Community Development Block Grant funds to repair the roof and doors at the Rockwood Community Center.

The City anticipates that the water rates will have to increase somewhat in 2005 to address inflation and the increase in the City of Detroit water rate charged to Rockwood. The City staff is in the process of evaluating the amount of increase that will be needed and will likely have a public hearing in 2005 to discuss the need for such an increase.

During fiscal year 2005, the City will be designing, permitting, and constructing an equalization basin to help support the wastewater treatment plant. The equalization basin is scheduled to be complete by summer 2005 and will be funded using funds within the Wastewater Treatment Plant Fund.

Contacting the City's Management

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the clerk's office.

City of Rockwood, Michigan

Statement of Net Assets June 30, 2004

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
Assets				
Cash and cash equivalents (Note 3)	\$ 2,142,514	\$ 858,859	\$ 3,001,373	\$ 305,788
Property taxes - Delinquent	54,448	4,232	58,680	-
Accounts receivable - Customer billings	-	113,460	113,460	-
Other receivables	19,696	1,500	21,196	-
Interfund balances (Note 6)	23,285	(23,285)	-	-
Due from component unit (Note 6)	200,000	-	200,000	-
Due from other governmental units	83,318	-	83,318	-
Due from primary government - Agency Fund	-	-	-	118,024
Inventories	-	40,597	40,597	-
Other assets	16,992	-	16,992	-
Restricted assets (Note 1)	-	583,290	583,290	-
Capital assets - Net (Note 5)	5,151,354	4,016,017	9,167,371	117,830
Total assets	7,691,607	5,594,670	13,286,277	541,642
Liabilities				
Accounts payable and other accruals	114,485	103,053	217,538	82,333
Due to primary government (Note 6)	-	-	-	200,000
Deposits	40,487	17,975	58,462	-
Deferred revenue (Note 4)	25,966	-	25,966	-
Compensated absences:				
Due within one year	12,000	-	12,000	-
Due in more than one year	111,846	14,000	125,846	-
Long-term debt (Note 7):				
Due within one year	152,220	50,000	202,220	-
Due in more than one year	3,561,277	2,035,000	5,596,277	-
Total liabilities	4,018,281	2,220,028	6,238,309	282,333
Net Assets				
Invested in capital assets - Net of related debt	1,437,857	2,277,583	3,715,440	117,830
Restricted:				
Streets and highways	792,502	-	792,502	-
Debt service	210,224	14,187	224,411	-
Drug forfeiture	5,387	-	5,387	-
Unrestricted	1,227,356	1,082,872	2,310,228	141,479
Total net assets	\$ 3,673,326	\$ 3,374,642	\$ 7,047,968	\$ 259,309

City of Rockwood, Michigan

	Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	
Functions/Programs				
Primary government:				
Governmental activities:				
General government	\$ 1,070,854	\$ 132,489	\$ 9,172	\$ -
Public safety	1,020,520	278,476	-	-
Public works	342,879	-	202,413	-
Recreation and culture	206,895	37,096	16,099	31,280
Interest on long-term debt	168,263	-	-	-
Total governmental activities	<u>2,809,411</u>	<u>448,061</u>	<u>227,684</u>	<u>31,280</u>
Business-type activities				
Wastewater treatment	220,617	234,152	-	-
Water and sewer	816,774	586,790	-	-
Total business-type activities	<u>1,037,391</u>	<u>820,942</u>	<u>-</u>	<u>-</u>
Total primary government	<u>\$ 3,846,802</u>	<u>\$ 1,269,003</u>	<u>\$ 227,684</u>	<u>\$ 31,280</u>
Component unit - Tax Increment Financing Authority	<u>\$ 93,124</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

General revenues:
 Property taxes
 State-shared revenues
 Unrestricted investment earnings
 Miscellaneous

Total general revenues

Change in Net Assets

Net Assets - July 1, 2003

Net Assets - June 30, 2004

Statement of Activities
Year Ended June 30, 2004

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			Component Units
Governmental Activities	Business-type Activities	Total	
\$ (929,193)	\$ -	\$ (929,193)	\$ -
(742,044)	-	(742,044)	-
(140,466)	-	(140,466)	-
(122,420)	-	(122,420)	-
(168,263)	-	(168,263)	-
(2,102,386)	-	(2,102,386)	-
-	13,535	13,535	-
-	(229,984)	(229,984)	-
-	(216,449)	(216,449)	-
(2,102,386)	(216,449)	(2,318,835)	-
-	-	-	(93,124)
1,507,980	165,947	1,673,927	269,421
362,144	-	362,144	-
22,750	6,946	29,696	8,049
104,157	-	104,157	-
1,997,031	172,893	2,169,924	277,470
(105,355)	(43,556)	(148,911)	184,346
3,778,681	3,418,198	7,196,879	74,963
\$ 3,673,326	\$ 3,374,642	\$ 7,047,968	\$ 259,309

City of Rockwood, Michigan

Governmental Funds Balance Sheet June 30, 2004

	Major Special Revenue Funds				Debt Service Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
	General Fund	Major Roads	Local Roads	Commerce Park	City Hall Construction		
Assets							
Cash and cash equivalents	\$ 1,003,518	\$ 675,356	\$ 65,336	\$ 136,273	\$ 203,285	\$ 58,746	\$ 2,142,514
Property taxes - Delinquent	47,077	-	-	-	7,371	-	54,448
Other receivables	17,172	-	2,524	-	-	-	19,696
Due from component unit	-	-	-	200,000	-	-	200,000
Due from other governmental units	49,299	21,944	9,821	-	-	2,254	83,318
Due from other funds	49,562	33,208	32,340	-	-	98	115,208
Other assets	16,992	-	-	-	-	-	16,992
Total assets	\$ 1,183,620	\$ 730,508	\$ 110,021	\$ 336,273	\$ 210,656	\$ 61,098	\$ 2,632,176
Liabilities and Fund Balances							
Liabilities							
Accounts payable and other accruals	\$ 111,993	\$ 240	\$ 240	\$ 181	\$ 432	\$ 1,400	\$ 114,486
Due to other funds	31,969	32,340	15,207	-	-	12,407	91,923
Deposits	38,931	-	-	-	-	1,555	40,486
Deferred revenue	-	-	-	-	-	25,966	25,966
Total liabilities	182,893	32,580	15,447	181	432	41,328	272,861
Fund Balances							
Reserved for - Debt service	-	-	-	-	210,224	-	210,224
Unreserved:							
Designated, reported in General Fund (Note 12)	618,043	-	-	-	-	-	618,043
Undesignated, reported in:							
General Fund	382,684	-	-	-	-	-	382,684
Special Revenue Funds	-	697,928	94,574	336,092	-	19,770	1,148,364
Total fund balances	1,000,727	697,928	94,574	336,092	210,224	19,770	2,359,315
Total liabilities and fund balances	\$ 1,183,620	\$ 730,508	\$ 110,021	\$ 336,273	\$ 210,656	\$ 61,098	\$ 2,632,176
Total Fund Balances for Governmental Funds							\$ 2,359,315
Amounts reported for governmental activities in the statement of net assets are different because:							
Capital assets used in governmental activities are not financial resources and are not reported in the funds							
							5,151,354
Long-term liabilities are not due and payable in the current period and are not reported in the funds							
							(3,837,343)
Net Assets of Governmental Activities							\$ 3,673,326

City of Rockwood, Michigan

Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended June 30, 2004

	Major Special Revenue Funds				Debt Service Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
	General Fund	Major Roads	Local Roads	Commerce Park	City Hall Construction		
Revenue							
Property taxes	\$ 1,230,354	\$ -	\$ -	\$ -	\$ 277,626	\$ -	\$ 1,507,980
Licenses and permits	38,110	-	-	-	-	-	38,110
Federal sources	-	-	-	-	-	9,172	9,172
State sources	363,293	139,853	62,560	-	-	-	565,706
District Court	239,138	-	-	-	-	-	239,138
Interest and rentals	15,409	4,225	774	717	1,591	34	22,750
Other	262,215	1,337	-	-	-	58,985	322,537
Total revenue	2,148,519	145,415	63,334	717	279,217	68,191	2,705,393
Expenditures							
Current:							
General government	835,858	-	-	-	-	-	835,858
Public safety	790,546	-	-	-	-	20,967	811,513
District Court	154,005	-	-	-	-	-	154,005
DPW	92,065	-	-	-	-	-	92,065
Public works, street lighting, and rubbish collection	187,897	27,591	225,106	1,565	-	-	442,159
Community center	-	-	-	-	-	57,427	57,427
Recreation and culture	72,173	-	-	-	-	-	72,173
Federal expenditures	-	-	-	-	-	9,172	9,172
Other expenditures	-	-	-	-	849	-	849
Capital outlay	68,000	-	-	-	38,704	-	106,704
Debt service	-	-	-	-	283,263	-	283,263
Total expenditures	2,200,544	27,591	225,106	1,565	322,816	87,566	2,865,188
Excess of Revenue Over (Under) Expenditures	(52,025)	117,824	(161,772)	(848)	(43,599)	(19,375)	(159,795)
Other Financing Sources (Uses)							
Transfers in	144,141	-	32,340	-	-	27,810	204,291
Transfers out	(27,810)	(32,340)	-	(144,141)	-	-	(204,291)
Issuance of debt	68,000	-	-	-	-	-	68,000
Total other financing sources (uses)	184,331	(32,340)	32,340	(144,141)	-	27,810	68,000
Net Change in Fund Balances	132,306	85,484	(129,432)	(144,989)	(43,599)	8,435	(91,795)
Fund Balances - July 1, 2003	868,421	612,444	224,006	481,081	253,823	11,335	2,451,110
Fund Balances - June 30, 2004	\$ 1,000,727	\$ 697,928	\$ 94,574	\$ 336,092	\$ 210,224	\$ 19,770	\$ 2,359,315

City of Rockwood, Michigan

Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2004

Net Change in Fund Balances - Total Governmental Funds	\$ (91,795)
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation:	
Capital outlay	190,241
Depreciation expense	(339,644)
Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	144,083
Increase in accumulated employee sick and vacation pay	<u>(8,240)</u>
Change in Net Assets of Governmental Activities	<u>\$ (105,355)</u>

City of Rockwood, Michigan

Proprietary Funds Statement of Net Assets June 30, 2004

	Enterprise Funds		Total
	Water and Sewer	Wastewater Treatment	
Assets			
Current assets:			
Cash and cash equivalents	\$ 182,099	\$ 676,760	\$ 858,859
Accounts receivable - Customer billings	113,460	-	113,460
Property taxes - Delinquent	4,232	-	4,232
Due from other funds	-	77,212	77,212
Other receivables	-	1,500	1,500
Inventories	40,597	-	40,597
Total current assets	340,388	755,472	1,095,860
Noncurrent assets:			
Capital assets	3,480,506	535,511	4,016,017
Restricted assets	583,290	-	583,290
Total noncurrent assets	4,063,796	535,511	4,599,307
Total assets	3,820,894	1,290,983	5,111,877
Liabilities			
Current liabilities:			
Accounts payable and other accruals	83,069	19,984	103,053
Due to other funds	100,497	-	100,497
Deposits	17,975	-	17,975
Current portion of long-term debt	50,000	-	50,000
Total current liabilities	251,541	19,984	271,525
Noncurrent liabilities:			
Long-term portion of compensated absences	14,000	-	14,000
Long-term debt - Net of current portion	2,035,000	-	2,035,000
Total noncurrent liabilities	2,049,000	-	2,049,000
Total liabilities	2,300,541	19,984	2,320,525
Net Assets			
Investment in capital assets - Net of related debt	1,742,072	535,511	2,277,583
Restricted	14,187	-	14,187
Unrestricted	347,384	735,488	1,082,872
Total net assets	<u>\$ 2,103,643</u>	<u>\$ 1,270,999</u>	<u>\$ 3,374,642</u>

City of Rockwood, Michigan

Proprietary Funds Statement of Revenue, Expenses, and Changes in Net Assets Year Ended June 30, 2004

	Enterprise Funds		Total
	Water and Sewer	Wastewater Treatment	
Operating Revenue			
Sale of water	\$ 252,213	\$ -	\$ 252,213
Sale of sewer	309,618	-	309,618
Sewage disposal charges	-	234,152	234,152
Customer interest and penalty charges	13,635	-	13,635
Other charges for services	1,774	-	1,774
Total operating revenue	577,240	234,152	811,392
Operating Expenses			
Cost of water purchased	129,677	-	129,677
Cost of sewage treatment	234,152	-	234,152
Plant management charges	-	162,657	162,657
Salaries and fringe benefits	87,175	-	87,175
Professional services	20,413	4,160	24,573
Office administration expenses	4,105	-	4,105
Water and sewer mains repair and maintenance	33,735	-	33,735
Supplies, maintenance, and other	19,510	18,500	38,010
Utilities	5,526	-	5,526
Miscellaneous	9,252	15,092	24,344
Depreciation	183,534	20,208	203,742
Total operating expenses	727,079	220,617	947,696
Operating Income (Loss)	(149,839)	13,535	(136,304)
Nonoperating Income (Expenses)			
Property taxes	165,947	-	165,947
Interest income	3,162	3,784	6,946
Interest expense	(89,695)	-	(89,695)
Tap-in fees	9,550	-	9,550
Total nonoperating income	88,964	3,784	92,748
Change in Net Assets	(60,875)	17,319	(43,556)
Net Assets - July 1, 2003 - As restated (Note 11)	2,164,518	1,253,680	3,418,198
Net Assets - June 30, 2004	\$ 2,103,643	\$ 1,270,999	\$ 3,374,642

City of Rockwood, Michigan

Proprietary Funds Statement of Cash Flows Year Ended June 30, 2004

	Enterprise Funds		Total
	Water and Sewer	Wastewater Treatment	
Cash Flows from Operating Activities			
Receipts from customers	\$ 584,545	\$ -	\$ 584,545
Payments to suppliers	(196,918)	(211,698)	(408,616)
Payments to employees	(87,175)	-	(87,175)
Internal activity - Payments to/from other funds	(505,693)	486,752	(18,941)
Net cash provided by (used in) operating activities	(205,241)	275,054	69,813
Cash Flows from Capital and Related Financing Activities			
Principal payments on long-term debt	(45,000)	-	(45,000)
Collection of property taxes for debt service	165,947	-	165,947
Interest paid on bonds	(89,695)	-	(89,695)
Tap-in fees	9,550	-	9,550
Purchase of capital assets	(29,101)	-	(29,101)
Net cash provided by capital and related financing activities	11,701	-	11,701
Cash Flows from Investing Activities - Interest received on investments	3,162	3,784	6,946
Net Increase (Decrease) in Cash and Cash Equivalents	(190,378)	278,838	88,460
Cash and Cash Equivalents - July 1, 2003	955,767	397,922	1,353,689
Cash and Cash Equivalents - June 30, 2004	<u>\$ 765,389</u>	<u>\$ 676,760</u>	<u>\$ 1,442,149</u>
Balance Sheet Classification of Cash and Cash Equivalents			
Cash and cash equivalents	\$ 182,099	\$ 676,760	858,859
Restricted assets	583,290	-	583,290
Total cash and cash equivalents	<u>\$ 765,389</u>	<u>\$ 676,760</u>	<u>\$ 1,442,149</u>
Reconciliation of Operating Income (Loss) to Net Cash from Operating Activities			
Operating income (loss)	\$ (149,839)	\$ 13,535	(136,304)
Adjustments to reconcile operating income (loss) to net cash from operating activities:			
Depreciation and amortization	183,534	20,208	203,742
Changes in assets and liabilities:			
Accounts receivable - Customer billings	6,872	-	6,872
Property taxes - Delinquent	433	-	433
Due from other funds	2,917	252,600	255,517
Inventories	(17,176)	-	(17,176)
Accounts payable and other accruals	43,476	(11,289)	32,187
Due to other funds	(274,458)	-	(274,458)
Deposits	(1,000)	-	(1,000)
Net cash provided by (used in) operating activities	<u>\$ (205,241)</u>	<u>\$ 275,054</u>	<u>\$ 69,813</u>

City of Rockwood, Michigan

Fiduciary Fund Statement of Assets and Liabilities June 30, 2004

	<u>Agency Fund</u>
Assets - Cash and cash equivalents	<u>\$ 146,213</u>
Liabilities	
Due to other governmental units	\$ 28,189
Due to component unit	<u>118,024</u>
 Total liabilities	 <u>\$ 146,213</u>

City of Rockwood, Michigan

Component Units Statement of Net Assets June 30, 2004

	TIFA	Economic Development Corporation	Totals
Assets			
Cash and cash equivalents	\$ 303,822	\$ 1,966	\$ 305,788
Due from primary government - Agency Fund	118,024	-	118,024
Construction in progress	117,830	-	117,830
Total assets	539,676	1,966	541,642
Liabilities			
Accounts payable	82,333	-	82,333
Due to primary government	200,000	-	200,000
Total liabilities	282,333	-	282,333
Net Assets			
Investment in capital assets - Net of related debt	117,830	-	117,830
Unrestricted	139,513	1,966	141,479
Total net assets	<u>\$ 257,343</u>	<u>\$ 1,966</u>	<u>\$ 259,309</u>

City of Rockwood, Michigan

	Program Revenues			
	Charges for Expenses	Services	Operating Grants and Contributions	Capital Grants and Contributions
Tax Increment Finance Authority (TIFA):				
General government	\$ 30,354	\$ -	\$ -	\$ -
Interest expense on long-term debt	62,770	-	-	-
Economic Development Corporation	-	-	-	-
Total governmental activities	\$ 93,124	\$ -	\$ -	\$ -

General Revenues

Property taxes

Interest

Total general revenues

Change in Net Assets

Net Assets - July 1, 2003

Net Assets - June 30, 2004

**Component Units
Statement of Activities
Year Ended June 30, 2004**

Net (Expense) Revenue and Changes in Net Assets		
TIFA	Economic Development Corporation	Total
\$ (30,354)	\$ -	\$ (30,354)
(62,770)	-	(62,770)
-	-	-
(93,124)	-	(93,124)
269,421	-	269,421
8,049	-	8,049
277,470	-	277,470
184,346	-	184,346
72,997	1,966	74,963
\$ 257,343	\$ 1,966	\$ 259,309

Note I - Summary of Significant Accounting Policies

The accounting policies of the City of Rockwood, Michigan (the “City”) conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the City of Rockwood, Michigan:

Reporting Entity

The City of Rockwood, Michigan is governed by an elected mayor and six-member council. The accompanying financial statements present the City and its component units, entities for which the City is considered to be financially accountable. Discretely presented component units are reported in a separate column in the government-wide financial statements to emphasize that they are legally separate from the City (see discussion below for descriptions).

Discretely Presented Component Units

Tax Increment Finance Authority (TIFA)

The Tax Increment Finance Authority (TIFA) was created to encourage development within a certain district of the City. The TIFA’s governing body, which consists of eight individuals, is appointed by the mayor and approved by the City Council. In addition, the TIFA’s budget is subject to approval by the City Council. During the current year, a resolution was passed by the City Council rendering the TIFA legally inactive and, as such, it will not capture taxes in the future.

Economic Development Corporation (EDC)

The Economic Development Corporation (EDC) was created to provide means and methods for the encouragement and assistance of industrial and commercial enterprises in relocating, purchasing, constructing, improving, or expanding within the City so as to provide needed services and facilities of such enterprises to the residents of the City. There was no activity in the EDC in the current year.

The Rockwood Housing Commission

The Rockwood Housing Commission has not been included in the City’s reporting entity because the City lacks the ability to impose its will on the Housing Commission under the guidelines of Governmental Accounting Standards Board Statement No. 14 (GASB No. 14). This entity is subject to separate audit requirements.

Jointly Governed Organization

The City is a participant in a jointly governed organization as discussed in Note I5.

Note I - Summary of Significant Accounting Policies (Continued)

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segments are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds, and the fiduciary fund, even though the latter is excluded from the government-wide financial statements. Major individual governmental funds and major individual Enterprise Funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund, fiduciary fund, and component unit financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Note I - Summary of Significant Accounting Policies (Continued)

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. The following major revenue sources meet the availability criterion: state-shared revenue, state gas and weight tax revenue, district court fines, and interest associated with the current fiscal period.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

The City reports the following major governmental funds:

General Fund - The General Fund contains the records of the ordinary activities of the City that are not accounted for in another fund. General Fund activities are financed by revenue from general property taxes, State-shared revenue, and other sources.

Major Roads Fund - The Major Roads Fund's purpose is to account for expenditures associated with the construction and maintenance needs of the major street portion of the City's street network. Financing is provided by the City's share of state gas and weight taxes and interest on investments.

Local Roads Fund - The Local Roads Fund's purpose is to account for expenditures associated with the construction and maintenance needs of the local street portion of the City's street network. Financing is provided by the City's share of gas and weight taxes, transfers from other funds, and interest on investments.

Commerce Park Fund - The Commerce Park Fund's purpose is to maintain and improve City-owned land in Commerce Park for eventual sale.

City Hall Construction Fund - The City Hall Construction Fund was used to account for construction and purchase of capital assets for the City Hall complex. Currently, the fund collects property taxes and pays the debt service on the outstanding City Hall bonds.

Note I - Summary of Significant Accounting Policies (Continued)

The City reports the following major proprietary funds:

Water and Sewer Fund - The Water and Sewer Fund is used to account for the activities of the water distribution system and sewage collection system. The fund is financed primarily by a user charge for the provided service.

Wastewater Treatment Fund - The Wastewater Treatment Fund is used to account for the activities of the wastewater treatment plant operated by the City.

Additionally, the City reports the following fund types:

Agency Fund - The Agency Fund is used to account for assets held by the City as an agent for individuals, organizations, other governmental units, or other funds. The Trust and Agency Fund is custodial in nature (assets equal liabilities) and does not involve the measurement of result of operations.

Private sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The City has elected not to follow private sector standards issued after November 30, 1989 for its business-type activities.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the City's water and sewer function and various other functions of the City. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary funds relates to charges to customers for sales and services. The Water and Sewer Fund recognizes tap charges as nonoperating revenue. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Note I - Summary of Significant Accounting Policies (Continued)

Assets, Liabilities, and Net Assets or Equity

Cash and Cash Equivalents - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. To the extent that cash from various funds has been pooled, pooled investment income is generally allocated to each fund using a weighted average.

Receivables and Payables - In general, outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances." All trade and property tax receivables are shown as net of allowance for uncollectible amounts.

Property Taxes - Property taxes are assessed as of December 31 and become a lien on December 1 of the following year. The related property taxes are billed on July 1 and December 1 of the following year. These taxes are due on August 31 and February 28, respectively, with the final collection date of February 28 before they are added to the county tax rolls. The City budgets and recognizes all revenue in the fiscal year ending on each June 30 the tax bills issued on the preceding July 1 and December 1, since the proceeds of the tax levy are then available for financing operations.

The 2003 taxable valuation of the City approximated \$85.5 million (a portion of which is abated and a portion of which is captured by the TIFA), on which taxes levied consisted of 16 mills for operating purposes, 2 mills for sanitary sewer debt service, and 3.3 mills for City Hall building debt service. This resulted in approximately \$1,230,000 for operating, \$166,000 for sanitary sewer debt service, and \$278,000 for City Hall building debt service. These amounts are recognized in the respective General, City Hall Construction, and Water and Sewer Funds financial statements as tax revenue. The total amount of City taxes captured by the TIFA approximated \$161,000.

Inventories and Prepaid Items - Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when purchased rather than when consumed.

Note I - Summary of Significant Accounting Policies (Continued)

Restricted Assets - Cash and cash equivalents in the Water and Sewer Fund have been restricted by action of the City Council through a reserve account related to fees collected through water and sewer billings for the purpose of rehabilitating the sewer system. In addition, cash and cash equivalents related to unspent water and sewer project bond proceeds are restricted by the bond ordinance and property tax collections in excess of debt service requirements are restricted by law.

	Business-type Activities
Unspent bond proceeds and related interest	\$ 346,566
Sewer system rehabilitation reserve	222,537
Property tax collections in excess of debt service	<u>14,187</u>
Total restricted assets	<u>\$ 583,290</u>

Retained earnings have been restricted in the amount of restricted assets, excluding the amount resulting from the issuance of bonds.

Capital Assets - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of more than \$2,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Buildings, equipment, infrastructure, and vehicles are depreciated using the straight-line method over the following useful lives:

Infrastructure - Roads and sidewalks	10 to 25 years
Infrastructure - Bridges	50 years
Water and sewer distribution systems and components	10 to 50 years
Water and sewer treatment facilities	10 to 39 years
Buildings and building improvements	40 years
Vehicles	3 to 10 years
Furniture	5 years
Equipment	5 to 15 years

Note 1 - Summary of Significant Accounting Policies (Continued)

Compensated Absences (Vacation and Sick Leave) - It is the City's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. All sick and vacation pay is accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements.

Long-term Obligations - In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net assets. When material, bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable recorded bond premium or discount. Recorded bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Other accounting policies are disclosed in other notes to the financial statements.

Note 2 - Stewardship, Compliance, and Accountability

The annual budget is prepared by the City management and adopted by the City Council; subsequent amendments are approved by the City Council. Unexpended appropriations lapse at year end; encumbrances are not included as expenditures. The amount of encumbrances outstanding at June 30, 2004 has not been calculated.

Note 2 - Stewardship, Compliance, and Accountability (Continued)

During the current year, the budget was amended in a legally permissible manners, although no budget was adopted for the Community Development Block Grant and the Drug Forfeiture Funds.

The budget has been prepared in accordance with accounting principles generally accepted in the United States of America, with the following exceptions:

- Operating transfers have been included in the “revenue” and “expenditures” categories, rather than as “other financing sources (uses).”
- Reimbursements from other funds have been included in revenue, rather than as a reduction of expenditures.
- Capital outlay purchases have been reflected net of related installment purchase debt proceeds.

The budget has been adopted on an activity basis; expenditures at this level in excess of amounts budgeted are a violation of Michigan law. A comparison of actual results of operations to the General Fund budget and Major Special Revenue Funds as adopted by the City Council is included in the required supplemental information section. A comparison of the actual results of operations to the Nonmajor Special Revenue Funds’ budgets as adopted by the City Council are available at the clerk’s office for inspection.

City of Rockwood, Michigan

Notes to Financial Statements June 30, 2004

Note 2 - Stewardship, Compliance, and Accountability (Continued)

Excess of Expenditures Over Appropriations in Budgeted Funds - During the year, the City incurred expenditures that were in excess of the amounts budgeted, as follows:

	Amended Budget	Actual	Variance with Amended Budget
General Fund			
Administration and general government:			
Legislative	\$ 35,700	\$ 43,315	\$ (7,615)
Executive	32,100	35,833	(3,733)
District Court	149,919	154,005	(4,086)
Street lighting and rubbish collection	167,905	187,897	(19,992)
Recreation	38,600	72,173	(33,573)
Capital outlay	-	68,000	(68,000)
Major Roads Fund - Transfer to other funds	32,000	32,340	(340)
Local Roads Fund - Expenses - Public works	186,500	225,106	(38,606)
Commerce Park Fund			
Other expenses	1,000	1,565	(565)
Transfer to General Fund	127,000	144,141	(17,141)

Construction Code Fees - The City oversees building construction, in accordance with the State's Construction Code Act, including inspection of building construction and renovation to ensure compliance with the building codes. The City charges fees for these services. The law requires that collection of these fees be used only for construction code costs, including an allocation of estimated overhead costs. A summary of the current year activity and the cumulative shortfall generated since January 1, 2000 is as follows:

Shortfall at July 1, 2003	\$ (692)
Current year building permit revenue	34,299
Related expenses:	
Direct costs	\$ 16,316
Estimated indirect costs	<u>24,750</u>
Total construction code expenses	<u>41,066</u>
Cumulative shortfall at June 30, 2004	<u>\$ (7,459)</u>

City of Rockwood, Michigan

Notes to Financial Statements June 30, 2004

Note 3 - Deposits

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The City has designated three banks for the deposit of its funds. The investment policy adopted by the Board in accordance with Public Act 196 of 1997 has authorized investment in bonds and securities of the United States government and bank accounts and CDs, but not the remainder of State statutorily authorized investment vehicles listed above. The City of Rockwood, Michigan's deposits and investment policies are in accordance with statutory authority. The Tax Increment Finance Authority also follows the City policies.

At year end, the deposits were reported in the basic financial statements in the following categories:

	Governmental Activities	Business-type Activities	Fiduciary Fund	Total Primary Government	Component Units
Cash and cash equivalents	\$ 2,142,514	\$ 858,859	\$ 146,213	\$ 3,147,586	\$ 305,788
Restricted assets	-	583,290	-	583,290	-
Total	<u>\$ 2,142,514</u>	<u>\$ 1,442,149</u>	<u>\$ 146,213</u>	<u>\$ 3,730,876</u>	<u>\$ 305,788</u>

The breakdown between deposits and cash on hand for the City at June 30, 2004 is as follows:

	Primary Government	Component Units
Bank deposits (checking accounts, savings accounts, and certificates of deposit)	\$ 3,729,676	\$ 305,788
Petty cash on hand	<u>1,200</u>	<u>-</u>
Total	<u>\$ 3,730,876</u>	<u>\$ 305,788</u>

Note 3 - Deposits (Continued)

The bank balance of the City's deposits at June 30, 2004 was \$3,742,085, of which \$500,000 was covered by federal depository insurance and the remainder was uninsured and uncollateralized. The City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the City evaluates each financial institution with which it deposits City funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

The component units' deposits at June 30, 2004 had a bank balance of \$305,774, of which \$100,000 was covered by federal depository insurance and the remainder was uninsured and uncollateralized.

Note 4 - Deferred Revenue

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, deferred revenue of \$25,966 has been recorded for federal grant payments received in the form of program income prior to meeting all eligibility requirements for disbursement.

City of Rockwood, Michigan

Notes to Financial Statements June 30, 2004

Note 5 - Capital Assets

Capital asset activity of the City's governmental and business-type activities was as follows:

	Balance July 1, 2003 (as restated)	Additions	Disposals and Adjustments	Balance June 30, 2004
Governmental Activities				
Capital assets not being depreciated -				
Land	\$ 187,805	\$ -	\$ -	\$ 187,805
Capital assets being depreciated:				
Buildings and improvements	4,711,787	-	-	4,711,787
Furniture	670,849	-	-	670,849
Equipment and vehicles	1,450,362	190,241	-	1,640,603
Infrastructure	331,814	-	-	331,814
Subtotal	7,164,812	190,241	-	7,355,053
Accumulated depreciation:				
Buildings and improvements	637,746	108,194	-	745,940
Furniture	331,272	69,663	-	400,935
Equipment and vehicles	905,490	144,554	-	1,050,044
Infrastructure	177,352	17,233	-	194,585
Subtotal	2,051,860	339,644	-	2,391,504
Net capital assets being depreciated	5,112,952	(149,403)	-	4,963,549
Net capital assets	<u>\$ 5,300,757</u>	<u>\$ (149,403)</u>	<u>\$ -</u>	<u>\$ 5,151,354</u>

Note 5 - Capital Assets (Continued)

	Balance July 1, 2003 (as restated)	Additions	Disposals and Adjustments	Balance June 30, 2004
Business-type Activities				
Capital assets being depreciated:				
Water and sewer distribution and treatment systems	\$ 6,385,512	\$ -	\$ -	\$ 6,385,512
Buildings and building improvements	616,709	-	-	616,709
Equipment	<u>319,752</u>	<u>29,101</u>	<u>-</u>	<u>348,853</u>
Subtotal	7,321,973	29,101	-	7,351,074
Accumulated depreciation	<u>3,131,315</u>	<u>203,742</u>	<u>-</u>	<u>3,335,057</u>
Net capital assets	<u>\$ 4,190,658</u>	<u>\$ (174,641)</u>	<u>\$ -</u>	<u>\$ 4,016,017</u>

Capital asset activity for the City of Rockwood's component units for the year consisted of additions to construction in progress of \$117,830 recorded in the Tax Increment Finance Authority for an ongoing watermain project. This construction project is the only capital asset of the component units. The estimated cost to complete the project is approximately \$53,700.

Depreciation expense was charged to programs of the primary government as follows:

Governmental activities:	
General government	\$ 78,449
Public safety	118,636
Recreation and culture	64,853
Public works	<u>77,706</u>
Total governmental activities	<u>\$ 339,644</u>
Business-type activities:	
Water and sewer	\$ 183,534
Wastewater treatment	<u>20,208</u>
Total business-type activities	<u>\$ 203,742</u>

Note 6 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows:

Receivable Fund	Payable Fund	Amount
Due to/from Other Funds		
General Fund	Water and Sewer Fund	\$ 23,285
	Other nonmajor governmental funds	12,407
	Local Roads Fund	<u>13,870</u>
	Total General Fund	49,562
Major Roads Fund	Local Roads Fund	1,337
	General Fund	<u>31,871</u>
	Total Major Roads Fund	33,208
Local Roads Fund	Major Roads Fund	32,340
Other nonmajor governmental funds	General Fund	<u>98</u>
	Total governmental funds	<u>115,208</u>
Wastewater Treatment Fund	Water and Sewer Fund	<u>77,212</u>
	Total interfund receivables	<u>\$ 192,420</u>
Due to/from Primary Government and Component Unit		
Primary government - Commerce Park Fund	Component unit - TIFA Fund	<u>\$ 200,000</u>

These balances result from the time lag between the dates that goods and services are provided or reimbursable expenditures occur, transactions are recorded in the accounting system, and payments between funds are made.

Interfund transfers reported in the fund financial statements are comprised of the following:

Fund Providing Resources	Fund Receiving Resources	Amount
General Fund	Other nonmajor governmental fund - Community Center Fund	\$ 27,810
Commerce Park Fund	General Fund	144,141
Major Roads Fund	Local Roads Fund	<u>32,340</u>
Total		<u>\$ 204,291</u>

Note 6 - Interfund Receivables, Payables, and Transfers (Continued)

The transfers from the General Fund to the other nonmajor governmental fund represent the use of unrestricted resources to finance community center programs, in accordance with budgetary authorizations; the transfer from the Major Roads Fund to the Local Roads Fund represents the sharing of gas and weight tax revenues, in accordance with Act 51; the transfer from the Commerce Park Fund to the General Fund represents the use of unrestricted resources to finance General Fund activities.

Note 7 - Long-term Debt

The City issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the City. Installment purchase agreements are also general obligations of the government.

Long-term obligation activity is summarized as follows:

	Interest Rate Ranges	Principal Maturity Ranges	Balance July 1, 2003	Additions (Reductions)	Balance June 30, 2004	Due Within One Year
Governmental Activities						
General obligation bonds -						
Unlimited tax bonds series 1999:						
Amount of issue: \$4,000,000		\$125,000 -				
Maturing through May 2019	4.400%-4.625%	\$345,000	\$ 3,700,000	\$ (115,000)	\$ 3,585,000	\$ 125,000
Installment purchase agreements:						
33 District Court agreement (Note 15):						
Amount of issue: \$224,600		\$5,605 -				
Maturing through June 2006	4.70%	\$78,627	89,580	(5,348)	84,232	5,605
Street sweeper agreement:						
Amount of issue: \$68,000		\$21,615 -				
Maturing through August 2005	4.79%	\$22,650	-	44,265	44,265	21,615
Total long-term debt			3,789,580	(76,083)	3,713,497	152,220
Compensated absences	N/A	N/A	115,606	8,240	123,846	12,000
Total governmental activities			\$ 3,905,186	\$ (67,843)	\$ 3,837,343	\$ 164,220
Business-type Activities						
General obligation bonds -						
Unlimited tax sanitary sewer bonds series 1998:						
Amount of issue: \$2,250,000		\$50,000 -				
Maturing through May 2022	3.80%-4.50%	\$165,000	\$ 2,130,000	\$ (45,000)	\$ 2,085,000	\$ 50,000
Compensated absences	N/A	N/A	14,000	-	14,000	-
Total business-type activities			\$ 2,144,000	\$ (45,000)	\$ 2,099,000	\$ 50,000

City of Rockwood, Michigan

Notes to Financial Statements June 30, 2004

Note 7 - Long-term Debt (Continued)

	Interest Rate Ranges	Principal Maturity Ranges	Balance July 1, 2003	Additions (Reductions)	Balance June 30, 2004	Due Within One Year
Component Unit - Tax Increment Finance Authority - 1996 Development refunding bonds:						
Amount of issue: \$685,000		\$65,000 -				
Maturing through May 2010 *	5.55%	\$80,000	\$ 505,000	\$ (505,000)	\$ -	\$ -

* These bonds were retired in advance in October 2003.

Annual debt service requirements to maturity for the above bonds and obligations are as follows:

	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2005	\$ 152,220	\$ 168,819	\$ 321,039	\$ 50,000	\$ 87,970	\$ 137,970
2006	241,277	160,882	402,159	55,000	86,070	141,070
2007	150,000	151,272	301,272	60,000	83,953	143,953
2008	165,000	144,522	309,522	70,000	81,643	151,643
2009	185,000	137,096	322,096	75,000	78,913	153,913
2010-2014	1,200,000	544,860	1,744,860	525,000	340,915	865,915
2015-2019	1,620,000	229,632	1,849,632	755,000	210,425	965,425
2020-2022	-	-	-	495,000	44,468	539,468
Total	\$ 3,713,497	\$ 1,537,083	\$ 5,250,580	\$ 2,085,000	\$ 1,014,357	\$ 3,099,357

Note 8 - Risk Management

The City is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The City participates in the Michigan Municipal Liability and Property Pool for claims relating to real and personal property and general liability. The City also participates in the Michigan Municipal League Workers' Compensation Fund for workers' compensation claims, and purchases commercial insurance for medical claims. Settled claims relating to insured risks have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The Michigan Municipal League risk pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

Note 9 - Defined Benefit Pension Plan

Plan Description

The City contributes to a group of annuity contracts with Principal Mutual Life Insurance Company that covers all employees of the City who work at least 20 hours per week and five months per year. The system provides retirement and disability benefits to plan members. The Principal Financial Group issues a publicly available financial report that includes financial statements and required supplementary information for the system. They report may be obtained by writing to the system at 710 Ninth Street, Des Moines, Iowa 50392-0001.

Funding Policy

The funding policy provides for employer contributions of actuarially determined amounts that are intended to accumulate sufficient assets to pay benefits when due. No contribution is required from the employees. The obligation to contribute to and maintain the system was established by resolution of the City Council.

Annual Pension Cost

For the year ended June 30, 2004, the City's annual pension cost of \$94,075 for the plan was equal to the City's required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at April 1, 2003, using the aggregate cost method. Significant actuarial assumptions include (a) an interest rate of 6.0 percent, (b) projected salary increases ranging from 3.88 percent to 7.1 percent, depending on the individual employee's age, and (c) no cost of living adjustment. Both (a) and (b) include an inflation component of 2.0 percent. Amortization of the unfunded actuarial liability is not applicable given the use of the aggregate cost method due to the fact that this method does not identify or separately amortize unfunded actuarial liabilities.

The three-year trend information for the plan is as follows:

	Fiscal Year Ended June 30		
	2004	2003	2002
Annual pension costs (APC)	\$ 94,075	\$ 55,898	\$ 69,190
Percentage of APC contributed	100%	100%	100%
Net pension obligation	\$ -	\$ -	\$ -

Note 10 - Wastewater Treatment Plant Fund

During the year ended June 30, 1983, the City entered into an agreement with Wayne County to lease a wastewater treatment plant from the county for a period of 99 years for a cost of \$1.

The City has an operation and maintenance agreement with an engineering firm to provide all routine operation and maintenance services for the treatment plant through June 2004. The agreement was renewed through June 2005. The monthly fee associated with these services at June 30, 2004 was \$14,787. This fee is subject to review each January and may be adjusted by a mutually acceptable cost of living index. Additional services that are not considered routine are billed separately to the City.

Note 11 - Correction of Prior Periods

The City of Rockwood restated net assets of the Water and Sewer Fund as of June 30, 2003 as follows:

Net Assets - June 30, 2003 - As previously reported:	
Reported as retained earnings	\$ 345,791
Reported as contributed capital	992,162
Adjustment to record water and sewer lines not previously reported by the City	<u>826,565</u>
Net Assets - June 30, 2003 - As restated	<u>\$ 2,164,518</u>

Note 12 - Designated Fund Balance

Fund balance of the General Fund has been designated for the following purposes:

Motor carrier enforcement	\$ 10,000
ETSC training funds	5,127
Accumulated sick days	111,023
Recreation	7,591
City administration and maintenance equipment	2,146
Police training	156
Fire training and equipment and rescue vehicles	350,000
Future retirement health care	100,000
Retirement benefits	<u>32,000</u>
Total	<u>\$ 618,043</u>

Note 13 - Other Postemployment Benefits

The City provides health care benefits to all employees upon retirement. Currently, five retirees are eligible. The City includes retirees and their spouses in its insured health care plan with some contribution required by the participants, depending on years of service. Expenses for postemployment health care benefits are recognized as the insurance premiums become due and totaled \$43,992 during the year ended June 30, 2004.

Note 14 - Accounting and Reporting Change

In June 1999, the Governmental Accounting Standards Board issued Statement No. 34 (GASB No. 34), *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. The City of Rockwood has applied the provisions of this statement in the accompanying financial statements (including the notes to the financial statements). The City has elected to implement both the general provisions of the statement and the retroactive reporting of the infrastructure in the current year. Certain significant changes in the current year statement include the following:

- A management's discussion and analysis (MD&A) section providing an analysis of the City's overall financial position and results of operations
- Financial statements prepared using full accrual accounting for all of the City's activities, including infrastructure (roads, bridges, etc.)
- A change in the fund financial statements to focus on the major funds
- Capital assets in the governmental activities column of the statement of net assets includes the net book value of infrastructure assets (roads, bridges, etc.) not previously accounted for by the City as well as assets totaling approximately \$7,100,000 that would previously have been reported in the General Fixed Assets Account Group.
- The governmental activities column includes bonds and other long-term obligations totaling \$3,837,343 previously reported in the General Long-term Debt Account Group.

Note 15 - Joint Venture

The City is a member of the 33rd District Court System (the "District Court"), which provides judicial services to the City and other neighboring communities. The City appoints one member to this joint venture's governing board who then approves the annual budget. The District Court receives its operating revenue principally through contributions from member communities. During the current year, the City received approximately \$110,000 from the District Court, representing the City's share of the District Court's net activity. The City is unaware of any circumstances that would cause an additional benefit or burden to the participating governments in the near future, other than the fluctuation of case loads, which impacts the governments' share of the District Court debt. Complete financial statements are available through the City offices.

During 1995, the City and various other surrounding communities entered into an installment purchase agreement with a bank on behalf of the District Court. The communities collectively agreed to finance the construction of an addition to the District Court for a total cost of approximately \$2,000,000.

The intention of the District Court is to make the monthly interest and principal payments on behalf of the communities. In the event that payments are not received by the bank when due, each community will be responsible for its proportionate share of the debt based on court usage. The City's original estimated share of this debt was anticipated to be 12.23 percent but has been averaging approximately 6 percent over the past several years. In prior years, the related balance of debt outstanding at year end was recorded in the General Long-term Debt Account Group at the City's original estimated share of 12.23 percent. In the current year, the City's anticipated share of the debt was recorded in the statement of net assets at approximately 6 percent of the outstanding debt balance. The City's portion of the related building addition and their equity interest in the District Court has been deemed insignificant by the City and has not been recorded as an asset.

Note 15 - Joint Venture (Continued)

For each community, the “share” is the percentage of the total amount of any payment due equal to a fraction, the numerator of which is the total cases handled by the District Court for that community from January 1 to December 31 of the year immediately preceding the year in which the payment is due, and the denominator of which is the total number of cases handled by the District Court for the same time period. The share for the City through June 30, 2004 approximated 5.82 percent. Principal and interest payments made by the District Court on the City’s behalf during the year approximated \$5,300 and \$4,000, respectively. The District Court has set aside certain funds of the City in anticipation of its future debt requirements. The City has not recorded these amounts held by the District Court since it is not anticipated that they will be made available currently, nor can they be used for purposes other than debt retirement.

Required Supplemental Information

City of Rockwood, Michigan

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2002

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
Property Taxes				
Real and personal property taxes	\$ 1,181,576	\$ 1,187,764	\$ 1,196,841	\$ 9,077
Tax penalty	5,000	7,000	7,781	781
Tax administration fees	23,000	25,600	25,732	132
Total property taxes	1,209,576	1,220,364	1,230,354	9,990
State Sources				
Revenue-sharing	347,138	365,138	362,144	(2,994)
Liquor license fees and other	1,200	6,200	1,149	(5,051)
Total state sources	348,338	371,338	363,293	(8,045)
Licenses and Permits	20,000	20,000	38,110	18,110
District Court	260,000	217,335	239,138	21,803
Interest and Rental Revenue	30,000	14,681	15,409	728
Intragovernmental Revenue - Reimbursements -				
Roads and water and sewer	90,000	100,000	130,883	30,883
Other Revenue				
Weed cutting	6,000	9,200	3,500	(5,700)
PILOT (senior citizen building)	7,500	7,500	10,004	2,504
Franchise fees	60,000	64,000	68,873	4,873
Park usage and donation	-	-	600	600
Miscellaneous income	5,700	5,700	23,415	17,715
Police training	2,800	2,800	5,762	2,962
Refuse disposal	88,200	88,200	89,730	1,530
Ambulance service	19,500	19,500	19,588	88
Workers' compensation refund	-	-	9,463	9,463
Proceeds from issuance of debt	-	-	68,000	68,000
Greenways Grant	-	-	31,280	31,280
Total other revenue	189,700	196,900	330,215	133,315
Transfer from Other Fund	144,141	144,141	144,141	-
Total revenue	2,291,755	2,284,759	2,491,543	206,784

City of Rockwood, Michigan

Required Supplemental Information Budgetary Comparison Schedule - General Fund (Continued) Year Ended June 30, 2002

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Expenses				
Administration and General Government				
Legislative	\$ 31,200	\$ 35,700	\$ 43,315	\$ (7,615)
Executive	32,100	32,100	35,833	(3,733)
Board of Review	600	600	480	120
Elections	5,000	5,000	472	4,528
Assessor	18,000	18,000	10,326	7,674
Clerk	217,945	210,945	203,297	7,648
General services	489,476	521,561	500,527	21,034
Inspections	20,000	20,000	16,316	3,684
Treasurer	7,840	7,840	6,220	1,620
Building	74,400	67,400	55,640	11,760
Total administration and general government	896,561	919,146	872,426	46,720
Public Safety				
Police	789,128	739,128	719,449	19,679
Fire	74,840	74,840	71,097	3,743
Total public safety	863,968	813,968	790,546	23,422
District Court	130,000	149,919	154,005	(4,086)
DPW	150,142	191,027	186,380	4,647
Street Lighting and Rubbish Collection	167,905	167,905	187,897	(19,992)
Recreation	38,600	38,600	72,173	(33,573)
Other	5,000	5,000	-	5,000
Capital Outlay	-	-	68,000	(68,000)
Transfer to Other Fund	37,079	37,079	27,810	9,269
Total Expenditures	<u>2,289,255</u>	<u>2,322,644</u>	<u>2,359,237</u>	<u>(36,593)</u>
Excess of Revenue Over (Under) Expenditures	2,500	(37,885)	132,306	<u>\$ 170,191</u>
Fund Balance - July 1, 2003	<u>868,421</u>	<u>868,421</u>	<u>868,421</u>	
Fund Balance - June 30, 2004	<u>\$ 870,921</u>	<u>\$ 830,536</u>	<u>\$ 1,000,727</u>	

City of Rockwood, Michigan

Required Supplemental Information Budgetary Comparison Schedule Major Special Revenue Funds Year Ended June 30, 2004

	Major Roads Fund			Variance with Amended Budget
	Original	Amended	Actual	
	Budget	Budget		
Revenue				
State-shared revenue	\$ 125,000	\$ 125,000	\$ 139,853	\$ 14,853
Other income	-	-	1,337	1,337
Interest income	<u>10,000</u>	<u>10,000</u>	<u>4,225</u>	<u>(5,775)</u>
Total revenue	135,000	135,000	145,415	10,415
Expenses				
Public works	563,675	563,675	27,591	536,084
Transfer to other fund	<u>32,000</u>	<u>32,000</u>	<u>32,340</u>	<u>(340)</u>
Total expenses	<u>595,675</u>	<u>595,675</u>	<u>59,931</u>	<u>535,744</u>
Excess of Revenue Over (Under) Expenditures	(460,675)	(460,675)	85,484	<u>\$ 546,159</u>
Fund Balance - July 1, 2003	<u>612,444</u>	<u>612,444</u>	<u>612,444</u>	
Fund Balance - June 30, 2004	<u>\$ 151,769</u>	<u>\$ 151,769</u>	<u>\$ 697,928</u>	
	Local Roads Fund			Variance with Amended Budget
	Original	Amended	Actual	
	Budget	Budget		
Revenue				
State-shared revenue	\$ 50,000	\$ 50,000	\$ 62,560	\$ 12,560
Interest income	2,500	2,500	774	(1,726)
Transfer from other fund	<u>32,000</u>	<u>32,000</u>	<u>32,340</u>	<u>340</u>
Total revenue	84,500	84,500	95,674	11,174
Expenses - Public works	<u>186,500</u>	<u>186,500</u>	<u>225,106</u>	<u>(38,606)</u>
Excess of Expenditures Over Revenue	(102,000)	(102,000)	(129,432)	<u>\$ (27,432)</u>
Fund Balance - July 1, 2003	<u>224,006</u>	<u>224,006</u>	<u>224,006</u>	
Fund Balance - June 30, 2004	<u>\$ 122,006</u>	<u>\$ 122,006</u>	<u>\$ 94,574</u>	

City of Rockwood, Michigan

Required Supplemental Information Budgetary Comparison Schedule Major Special Revenue Funds (Continued) Year Ended June 30, 2004

	Commerce Park Fund			Variance with Amended Budget
	Original Budget	Amended Budget	Actual	
Revenue - Interest income	\$ 1,000	\$ 1,000	\$ 717	\$ (283)
Expenses				
Other expenses	1,000	1,000	1,565	(565)
Transfer to General Fund	<u>127,000</u>	<u>127,000</u>	<u>144,141</u>	<u>(17,141)</u>
Total expenses	<u>128,000</u>	<u>128,000</u>	<u>145,706</u>	<u>(17,706)</u>
Excess of Expenditures Over Revenue	(127,000)	(127,000)	(144,989)	<u>\$ (17,989)</u>
Fund Balance - July 1, 2003	<u>481,081</u>	<u>481,081</u>	<u>481,081</u>	
Fund Balance - June 30, 2004	<u>\$ 354,081</u>	<u>\$ 354,081</u>	<u>\$ 336,092</u>	

City of Rockwood, Michigan

Required Supplemental Information Pension System Schedule of Funding Progress June 30, 2004

The schedule of funding progress is as follows:

Actuarial Valuation Date (Year Beginning April 1)	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (Percent) (a/b)	Valuation Payroll (c)	UAAL as a Percentage of Valuation Payroll
1999	\$ 900,981	\$ 900,981	\$ -	100.0	\$ 517,230	-
2000	852,107	852,107	-	100.0	554,566	-
2001	980,216	980,216	-	100.0	608,189	-
2002	1,240,834	1,240,834	-	100.0	590,594	-
2003	1,378,006	1,378,006	-	100.0	564,454	-
2004	1,406,516	1,406,516	-	100.0	533,508	-

The schedule of employer contributions is as follows:

Year Ended June 30	Actuarial Valuation Date	Annual Required Contribution	Percentage Contributed
1999	04/01/98	\$ 46,070	100.0
2000	04/01/99	51,120	100.0
2001	04/01/00	64,711	100.0
2002	04/01/01	69,190	100.0
2003	04/01/02	55,898	100.0
2004	04/01/03	94,075	100.0

Actuarial cost method	Aggregate cost
Amortization method	Not applicable
Remaining amortization period (perpetual)	Not applicable
Asset valuation method	Contract basis
Actuarial assumptions:	
Investment rate of return	6.0%
Projected salary increases*	3.9% to 7.1% depending on individual employee's age
*Includes inflation at	2.0%
Cost of living adjustments	None

Other Supplemental Information

City of Rockwood, Michigan

Other Supplemental Information Combining Balance Sheet Nonmajor Governmental Funds June 30, 2004

	Special Revenue Funds			Total Nonmajor Governmental Funds
	Drug Forfeiture	Community Center	Community Development Block Grant	
Assets				
Cash and investments	\$ 5,387	\$ 17,240	\$ 36,119	\$ 58,746
Due from other governmental units	-	-	2,254	2,254
Due from other funds	-	98	-	98
Total assets	\$ 5,387	\$ 17,338	\$ 38,373	\$ 61,098
Liabilities and Fund Balances				
Liabilities				
Accounts payable	\$ -	\$ 1,400	\$ -	\$ 1,400
Due to other funds	-	-	12,407	12,407
Deposits	-	1,555	-	1,555
Deferred revenue	-	-	25,966	25,966
Total liabilities	-	2,955	38,373	41,328
Fund Balances - Undesignated	5,387	14,383	-	19,770
Total liabilities and fund balances	\$ 5,387	\$ 17,338	\$ 38,373	\$ 61,098

City of Rockwood, Michigan

Other Supplemental Information Combining Statement of Revenue, Expenditures, and Changes in Fund Balances - Nonmajor Governmental Funds Year Ended June 30, 2004

	Special Revenue Funds			Total Nonmajor Governmental Funds
	Drug Forfeiture	Community Center	Community Development Block Grant	
Revenue				
Federal sources	\$ -	\$ -	\$ 9,172	\$ 9,172
Interest income	34	-	-	34
Other	15,361	43,624	-	58,985
Total revenue	15,395	43,624	9,172	68,191
Expenditures - Current				
Federal expenditures	-	-	9,172	9,172
Public safety	20,967	-	-	20,967
Community center	-	57,427	-	57,427
Total expenditures	20,967	57,427	9,172	87,566
Excess of Expenditures Over Revenue	(5,572)	(13,803)	-	(19,375)
Other Financing Sources - Transfer in	-	27,810	-	27,810
Net Change in Fund Balances	(5,572)	14,007	-	8,435
Fund Balances - July 1, 2003	10,959	376	-	11,335
Fund Balances - June 30, 2004	\$ 5,387	\$ 14,383	\$ -	\$ 19,770

August 16, 2004

Honorable Mayor and Members
of the City Council
City of Rockwood
32409 Fort Street
Rockwood, MI 48173

Dear Mayor and Council Members:

We recently completed the audit of the financial statements of the City of Rockwood, Michigan for the year ended June 30, 2004. In addition to the audit report, we offer the following comments for your consideration:

GASB 34 - New Financial Statement Format

Over the last several years, we have discussed the pending implementation of Governmental Accounting Standards Board (GASB) 34 with the City. This new accounting standard was adopted this year. It significantly impacts the format of the City's financial statements.

The expected benefits of the new reporting model include improved comparability of financial statements between communities, and a better matching of the current year's revenue sources to the full cost of services provided during that year. The information that was previously provided in your financial statements has also been retained in the new financial statement presentation. However, it appears in a slightly different format. In addition, the following major items have been added:

- A "Management's Discussion and Analysis" section
- City financial statements (balance sheet and operating statement) prepared on a full accrual basis. There are two columns, one for governmental activities and one for enterprise activities
- Capital assets and their related depreciation are now reported in your governmental activities
- Infrastructure assets (such as the City's roads) are now also capitalized and depreciated.

A significant effort was required on the part of a number of City personnel to help accomplish the financial reporting transition. We would like to thank these people for their efforts and congratulate the City on accomplishing this significant transition.

Honorable Mayor and Members
of the City Council
City of Rockwood

August 16, 2004

CAPITAL ASSET RECORDS

In addition to reconstructing the historical costs of the infrastructure assets which was required to comply with GASB 34, the historical costs of water and sewer lines and other general fixed assets that were not previously recorded by the City were analyzed and these assets recorded on the books and records of the City. The City is now comprehensively reporting all of its financial assets. This fact allows the audit of the financial statements to no longer be qualified because of a lack of complete historical cost records. The City should take an appropriate amount of pride in compiling this historical information.

STATE SHARED REVENUE

Municipalities in Michigan have and will continue to feel the effects of the slow down in the State's economy. State shared revenue accounted for approximately 17% of the City's total General Fund revenue for the fiscal year ended June 30, 2004. Because of slower than anticipated growth in the State's sales tax collections (the sole source of revenue sharing payments to local units of government) and the State's budget problems, revenue sharing payments for the last several years have been lower than anticipated.

Although sales tax revenue would support an increase to state shared revenue payments, the State's budget situation remains troublesome at best. It is generally acknowledged that the State's budget woes will continue for several more years. As a result, we continue to urge the City to be conservative in its estimation of state shared revenue as this line item in the State's budget remains vulnerable.

PROPERTY TAXES

As you recall, Proposal A limits the growth in taxable value to the lesser of inflation or 5 percent. The inflation factor for this calculation, as published by the State Tax Commission, is as follows:

2004	2.3%	1999	1.6%
2003	1.5%	1998	2.7%
2002	3.2%	1997	2.8%
2001	3.2%	1996	2.8%
2000	1.9%	1995	2.6%

As indicated above, valuation growth in existing property is significantly limited due to Proposal A. This factor should be considered when the City is involved in long-term financial planning.

Honorable Mayor and Members
of the City Council
City of Rockwood

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PROPERTY TAXES (Continued)

The Headlee Amendment to the Michigan Constitution limits the amount of taxes that can be levied by the City. In general terms, if growth in the City's existing property tax base exceeds inflation for a particular year, the Headlee Amendment requires the City to "roll back" its property tax rate to inflation. Prior to the passage of Proposal A in 1994, during years when the growth on the City's existing property tax base was less than inflation, the Headlee Amendment allowed the City to "roll up" its property tax rate and recover from years when the property tax rate was "rolled back". However, subsequent to the passage of Proposal A, the City is no longer allowed to "roll up" its property tax rate in years when growth on its existing tax base is less than inflation. As a result, despite general operating charter mills of 20, currently the Headlee limited mills are 16.9 (a reduction of over 15 percent).

BANK RECONCILIATIONS

As was communicated last year during the course of our audit testing for the year ended June 30, 2003, it came to our attention that bank statements for the City's Common Cash account were not reconciled to the General Ledger on a timely basis throughout the year. While bank account activity was reconciled to manual control records, they were not formally reconciled to the computer-generated general ledger postings for the multi-fund common cash account. This situation was also the case for the first several months of the fiscal year ended June 30, 2004 until such time as the City could focus additional attention on this matter.

We are happy to note that during the course of the June 30, 2004 year, the timeliness of the bank reconciliation preparation was improved and the reconciliation process has been restored to a timely basis. Additionally, the City's periodic (daily, weekly and monthly) reconciliation of cash register activity to posting details appeared to be functioning smoothly throughout the year. We did note, however, that the reconciliation process could still benefit from a more specific identification of reconciling items between the bank and the General Ledger itself, as opposed to other control documents that are in use.

OTHER RECONCILING ACTIVITIES

During our testing we noted other instances where there was a lack of detailed reconciliations between sub-ledgers and the general ledger. While the discrepancies noted were not material from a financial reporting standpoint, we would suggest that timely, recurring reconciliations be performed for the following items:

- Performance Bonds
- Interfund activity (including the Community Development Block Grant Fund)
- Pass through accounts

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ACT 51

During the current year the City transferred funds from the Major Street Fund to the General Fund related to pending expenditures for a bike path (a qualified non-motorized improvement). As of June 30, 2004, the actual bike path expenditures had not, as yet, been made. While Street Fund monies can be used to reimburse other Funds for qualified expenditures, under ACT 51 it is not necessarily permissible to hold Street Fund assets within another fund pending expenditures. However, Street Fund monies can be appropriated through the budget process, and re-appropriated in subsequent budgets, if necessary, to appropriately segregate these monies for future use.

We would urge the City to hold Act 51 monies in the appropriate Street Fund until such time as bills for qualified expenditures are due and could be paid by the Street Fund or until qualified bills have already been paid by another fund and are appropriately awaiting reimbursement from the Street Funds. If a significant amount of time is still expected to pass before the expenditures will be made related to the amounts in the recent transfer, the City may want to consider transferring the funds back to the Street Fund until the qualified liabilities are ready for payment.

BUDGETING

Again, in the current year the City did not adopt a budget for the Drug Forfeiture and the Community Development Block Grant funds. Even though details of grant award levels may not yet be available, or the level of activity is expected to be very modest, the State Budget Act requires the City to adopt a budget for the General Fund and all Special Revenue funds on an annual basis.

ELECTRONIC TRANSFERS

It was noted during our testing that the City has not adopted a formal policy related to the electronic transfer of funds. We would encourage the City to pass the appropriate resolution related to this activity. We can supply the City with sample policies and resolutions, if requested.

COMPUTER SECURITY

As we mentioned last year, organizations have become more reliant on computer technology in their operations, and it is increasingly apparent that attention needs to be given to the security of these computer systems. We were pleased to learn that the City had an independent party review this issue for its financial system applications to help ensure the integrity of the City's accounting records.

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REPORTABLE CONDITION

Reportable conditions are significant deficiencies in the design or operation of the internal controls structure that have come to our attention and, in our judgment, could adversely affect the City's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

In planning and performing our audit of the financial statements of the City of Rockwood for the year ended June 30, 2004, we considered the City's internal controls in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal controls. The purpose of an audit is to report on the financial statements, rather than provide assurance on the internal control structure; however, we would consider the items mentioned under "Bank Reconciliations" section of this letter to be a reportable condition under standards established by the American Institute of Certified Public Accountants due to the conditions that existed during the first several months of the fiscal year.

We would like to thank the City staff again this year for the cooperation and assistance they provided during the audit. If you would like to discuss these items further, or if you have questions on any other financial matters, please feel free to contact us at your convenience.

Yours truly,

PLANTE & MORAN, LLP



Mark E. Chmielewski



Blake M. Roe